

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

CLAY COMMUNITY SCHOOLS

CLAY COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
02/23/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Randall A. Burns	07-01-04 to 09-05-06
	Vacant	09-06-06 to 09-17-06
	Michael G. Fowler	09-18-06 to 09-17-07
Superintendent of Schools	William H. Schad	07-01-03 to 06-30-06
	Daniel J. Schroeder	07-01-06 to 06-30-11
President of the School Board	Theodore J. Jackson	07-01-04 to 06-30-05
	Steven Grigsby	07-01-05 to 06-30-06
	Dottie L. King	07-01-06 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CLAY COMMUNITY SCHOOLS, CLAY COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clay Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 4, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 4, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CLAY COMMUNITY SCHOOLS, CLAY COUNTY, INDIANA

We have audited the financial statements of the Clay Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 4, 2007

CLAY COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 9,210,887
Restricted assets:	
Cash and investments	<u>659,634</u>
Total assets	<u>\$ 9,870,521</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 659,634
Unrestricted	<u>9,210,887</u>
Total net assets	<u>\$ 9,870,521</u>

The accompanying notes are an integral part of the financial statements.

CLAY COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 9,186,273
Restricted assets:	
Cash and investments	<u>516,848</u>
Total assets	<u>\$ 9,703,121</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 516,848
Unrestricted	<u>9,186,273</u>
Total net assets	<u>\$ 9,703,121</u>

The accompanying notes are an integral part of the financial statements.

CLAY COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 15,664,500	\$ -	\$ 197,169	\$ (15,467,331)
Support services	18,547,127	1,094,883	860,729	(16,591,515)
Community services	241,682	-	-	(241,682)
Nonprogrammed charges	950,972	-	-	(950,972)
Debt service	13,799,224	-	-	(13,799,224)
Total governmental activities	\$ 49,203,505	\$ 1,094,883	\$ 1,057,898	(47,050,724)
General receipts:				
Property taxes				19,458,117
Other local sources				4,450,587
State aid				18,643,462
Grants and contributions not restricted				2,477,912
Bonds and loans				7,691,178
Sale of property, adjustments, and refunds				76,865
Investment earnings				125,847
Total general receipts				52,923,968
Change in cash and investments				5,873,244
Net assets - beginning				3,997,277
Net assets - ending				\$ 9,870,521

The accompanying notes are an integral part of the financial statements.

CLAY COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 15,196,334	\$ -	\$ 158,148	\$ (15,038,186)
Support services	19,915,942	1,090,785	1,032,423	(17,792,734)
Community services	242,952	-	-	(242,952)
Nonprogrammed charges	44,751	-	-	(44,751)
Debt service	7,045,743	-	-	(7,045,743)
Total governmental activities	\$ 42,445,722	\$ 1,090,785	\$ 1,190,571	(40,164,366)
General receipts:				
Property taxes				13,939,042
Other local sources				3,218,645
State aid				19,835,354
Grants and contributions not restricted				2,631,504
Bonds and loans				-
Sale of property, adjustments, and refunds				107,935
Investment earnings				264,486
Total general receipts				39,996,966
Change in cash and investments				(167,400)
Net assets - beginning				9,870,521
Net assets - ending				\$ 9,703,121

The accompanying notes are an integral part of the financial statements.

CLAY COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 10,219,528	\$ 2,294,919	\$ 6,429,387	\$ 4,318,267	\$ 546,213	\$ 1,318,005	\$ 25,126,319
Intermediate sources	847	-	-	-	-	2,269	3,116
State sources	18,821,506	-	-	-	-	318,315	19,139,821
Federal sources	-	-	-	-	-	3,039,450	3,039,450
Bonds and loans	7,691,178	-	-	-	-	-	7,691,178
Sale of property, adjustments and refunds	2,186	1,566	-	15,506	-	57,607	76,865
Intergovernmental transfers	13,177	-	-	1,207,373	-	124,748	1,345,298
Total receipts	36,748,422	2,296,485	6,429,387	5,541,146	546,213	4,860,394	56,422,047
Disbursements:							
Current:							
Instruction	14,339,298	-	-	-	-	1,325,202	15,664,500
Support services	11,418,998	1,840,592	-	1,945,924	266,844	3,074,769	18,547,127
Community services	228,488	-	-	-	-	13,194	241,682
Nonprogrammed charges	916,223	-	316,195	891,178	-	172,674	2,296,270
Debt services	6,958,000	506,001	5,548,760	708,000	-	78,463	13,799,224
Total disbursements	33,861,007	2,346,593	5,864,955	3,545,102	266,844	4,664,302	50,548,803
Excess (deficiency) of total receipts over (under) total disbursements	2,887,415	(50,108)	564,432	1,996,044	279,369	196,092	5,873,244
Cash and investments - beginning	313,642	863,617	-	1,207,896	433,573	1,178,549	3,997,277
Cash and investments - ending	<u>\$ 3,201,057</u>	<u>\$ 813,509</u>	<u>\$ 564,432</u>	<u>\$ 3,203,940</u>	<u>\$ 712,942</u>	<u>\$ 1,374,641</u>	<u>\$ 9,870,521</u>

The accompanying notes are an integral part of the financial statements.

CLAY COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 7,290,257	\$ 1,755,004	\$ 4,349,031	\$ 3,117,217	\$ 513,943	\$ 1,484,351	\$ 18,509,803
Intermediate sources	847	-	-	-	-	2,306	3,153
State sources	19,974,314	-	-	-	-	354,578	20,328,892
Federal sources	-	-	-	-	-	3,328,539	3,328,539
Sale of property, adjustments and refunds	57,279	8,959	-	2,538	-	39,159	107,935
Intergovernmental transfers	13,069	228,174	-	-	-	219,853	461,096
Total receipts	27,335,766	1,992,137	4,349,031	3,119,755	513,943	5,428,786	42,739,418
Disbursements:							
Current:							
Instruction	13,799,581	-	-	-	-	1,396,753	15,196,334
Support services	10,831,629	1,974,419	-	3,418,105	340,942	3,350,847	19,915,942
Community services	212,490	-	-	-	-	30,462	242,952
Nonprogrammed charges	68,955	13,611	298,726	27,209	1,392	95,954	505,847
Debt services	2,500,000	-	4,197,791	-	-	347,952	7,045,743
Total disbursements	27,412,655	1,988,030	4,496,517	3,445,314	342,334	5,221,968	42,906,818
Excess (deficiency) of total receipts over (under) total disbursements	(76,889)	4,107	(147,486)	(325,559)	171,609	206,818	(167,400)
Cash and investments - beginning	3,201,057	813,509	564,432	3,203,940	712,942	1,374,641	9,870,521
Cash and investments - ending	<u>\$ 3,124,168</u>	<u>\$ 817,616</u>	<u>\$ 416,946</u>	<u>\$ 2,878,381</u>	<u>\$ 884,551</u>	<u>\$ 1,581,459</u>	<u>\$ 9,703,121</u>

The accompanying notes are an integral part of the financial statements.

CLAY COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 30,379	\$ 40,366
Bonds and loans	3,150,000	-
Transfers	-	194,593
Total additions	3,180,379	234,959
Deductions:		
Instruction	-	294,830
Support services	2,401,035	443,010
Community services	-	436,582
Nonprogrammed charges	-	194,593
Total deductions	2,401,035	1,369,015
Excess (deficiency) of total additions over (under) total deductions	779,344	(1,134,056)
Cash and investments - beginning	-	1,867,099
Cash and investments - ending	\$ 779,344	\$ 733,043

The accompanying notes are an integral part of the financial statements.

CLAY COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 27,547	\$ 872,193
Transfers	-	38,702
Total additions	27,547	910,895
Deductions:		
Instruction	-	196,981
Support services	765	324,473
Community services	-	339,562
Nonprogrammed charges	-	38,702
Total deductions	765	899,718
Excess of total additions over total deductions	26,782	11,177
Cash and investments - beginning	779,344	733,043
Cash and investments - ending	\$ 806,126	\$ 744,220

The accompanying notes are an integral part of the financial statements.

CLAY COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 779,344	\$ 733,043
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 779,344	\$ 733,043

The accompanying notes are an integral part of the financial statements.

CLAY COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 806,126	\$ 744,220
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 806,126	\$ 744,220

The accompanying notes are an integral part of the financial statements.

CLAY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Clay Community Schools

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant with Vigo County School Corporation in a joint venture to operate Area 35 Vocational Education District which was created to provide vocational education to students. The School Corporation is obligated by contract to remit a variable amount annually based on the number of its participating students to supplement the Area 35 Vocational Education District. Complete financial statements for the Area 35 Vocational Education District can be obtained from the Vigo County School Corporation, the administrative and fiscal agent for the program, at 686 Wabash Avenue, Terre Haute, IN 47803.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School Corporation does not have any business-type activities.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. However,

CLAY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

at this time, the School Corporation has not established any proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the activities of the Retirement/Severance Pension Benefits Fund, which accumulates resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the individuals.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CLAY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any proprietary funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Certified employees are authorized 8 or 10 days per school year. Administrators are authorized 10 or 11 days per school year. These days are cumulative to a total of 120 days. Noncertified personnel, except for bus drivers, earn sick leave at the rates of 8 to 11 days per year. These days are cumulative to a total of 60 days for year-round noncertified personnel and 55 days for noncertified personnel who work only when schools are in session. Bus drivers are authorized 3 sick days per school year. These days are cumulative to a total of 30 days. Accumulated sick leave is paid to employees through cash payments upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 days to 3 days per year. Unused personal leave at year-end is added to accumulated sick leave.

CLAY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
2. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

CLAY COMMUNITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements. Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Cash and Investment Balance Deficits

At June 30, 2005 and 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as referenced in state statute.

Fund	2006
Textbook Rental	\$ 70,314
Project Respect Grant	20,846

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

CLAY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

CLAY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The School Corporation does not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School Corporation must follow state statute and limit the stated final maturities of the investments to no more than two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School Corporation does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The School Corporation does not have a formal policy in regards to foreign currency risk.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2005</u>	<u>2006</u>
General Fund	Other governmental	\$ -	\$ 51,920
Capital Projects Fund	General Fund	891,178	-
Capital Projects Fund	Debt Service Fund	316,195	228,174
Capital Projects Fund	Other governmental	-	27,209
Debt Service Fund	Other governmental	-	70,552
Transportation Operating Fund	Other governmental	-	13,611
School Bus Replacement Fund	Other governmental	-	1,392
Other governmental	General Fund	13,177	13,069
Other governmental	Other governmental	124,748	55,169
All others	All others	<u>194,593</u>	<u>38,702</u>
Totals		<u>\$ 1,539,891</u>	<u>\$ 499,798</u>

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

CLAY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Reclassifications

For the year ended June 30, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances by opinion unit.

Opinion Unit	Balance as Reported June 30, 2003	Fund Reclassification	Balance as Restated July 1, 2004
Governmental activities	\$ 5,858,272	\$ (1,860,995)	\$ 3,997,277
Major funds	3,976,351	(1,157,623)	2,818,728
Other governmental funds	1,881,921	(703,372)	1,178,549
Fiduciary funds	6,104	1,860,995	1,867,099

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Holding Corporation

The School Corporation has entered into a capital lease with Clay School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the years ended June 30, 2005 and 2006, totaled \$3,308,000 and \$3,306,000, respectively.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health and life insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age fifty-five with at least thirty years of service. Currently, thirty-nine retirees meet these eligibility requirements. The School Corporation provides 100% of the cost of health insurance premiums for eligible employees who retired before August 1, 2000. Effective August 1, 2000, eligible employees may elect to receive health insurance at the same premium rate as paid by a teacher on the single plan. The School Corporation provides 100% of the

CLAY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

cost of life insurance for eligible employees who retired before August 1, 2000. Currently, two employees meet these eligibility requirements. Certified employees who retire on or after August 1, 1997, may elect to receive life insurance benefits until age sixty-five at their own expense. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2006, disbursements of \$236,563 were recognized for postemployment benefits.

Effective August 1, 2000, any teacher who was eligible for retirement under ISTRF Rule of 85, and who served as a teacher in the School Corporation for twenty years, could elect to receive the School Corporation's health insurance plan until the age of Medicare eligibility.

Effective for teachers retiring on or after November 4, 2004, the School Corporation's obligation to contribute to the cost of retiree health insurance was eliminated and replaced by contributions to a Voluntary Employees' Beneficiary Association. Thirty-three certified employees chose to opt out of this provision to receive the retiree benefits described in the previous paragraph upon retirement.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

CLAY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 313,287
Interest on net pension obligation	(9,919)
Adjustment to annual required contribution	11,304
Annual pension cost	314,672
Contributions made	307,520
Increase in net pension obligation	7,152
Net pension obligation, beginning of year	(136,820)
Net pension obligation, end of year	\$ (129,668)
Contribution rates:	
School Corporation	6.5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 317,244	87%	\$ (131,158)
	06-30-04	282,781	102%	(136,820)
	06-30-05	314,672	109%	(129,668)

CLAY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$329,684, \$326,170, and \$317,205, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

CLAY COMMUNITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 2,995,555	\$ 3,565,658	\$ (570,103)	84%	\$ 4,451,301	(13%)
07-01-04	3,150,754	3,939,443	(788,689)	80%	4,559,945	(17%)
07-01-05	3,396,329	4,420,997	(1,024,668)	77%	4,481,863	(23%)

Clay Community Schools



Dr. Dan Schroeder, Superintendent
Mr. Mike Fowler, Business Manager/Treasurer
Mrs. Kathy Knust, Curriculum Coordinator
Mrs. Carolyn Kumpf, Director of Data, Food Service & Personnel
Mr. Tom Reberger, Director of Buildings & Grounds

9750 N Crawford Street
PO Box 169
Knightsville, IN 47857
Phone: 812-443-4461
Fax: 812-442-0849

CLAY COMMUNITY SCHOOL CORPORATION SUPPLEMENTARY INFORMATION SCHEDULE OF CAPITAL ASSETS

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

The schedule below is prepared as of September 30, 2004, not as of the preferred audit period ending date of June 30, 2006. Maximus is currently in the process of updating Clay Community School Corporation's capital assets records as of September 30, 2006.

	9/30/2004
<u>Primary Government</u>	<u>Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land and buildings	\$ 2,795,401
Improvements other than buildings	58,544,013
Machinery and equipment	<u>10,630,308</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 71,969,722</u>

CLAY COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Within One Year
Governmental Activities:		
Capital leases:		
School buildings	\$ 7,760,000	\$ 3,050,000
500 IBM computers	203,681	134,475
Notes and loans payable	5,748,380	1,243,397
Bonds payable:		
General obligation bonds:		
Funding of existing retirement or severance liability	2,945,000	215,000
Total governmental activities long-term debt	<u>\$ 16,657,061</u>	<u>\$ 4,642,872</u>

CLAY COMMUNITY SCHOOLS
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The cash balances of the Textbook Rental Fund and the Project Respect Grant Fund were overdrawn as of June 30, 2006.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CLAY COMMUNITY SCHOOLS, CLAY COUNTY, INDIANA

Compliance

We have audited the compliance of the Clay Community Schools (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 4, 2007

CLAY COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
National School Lunch Program	10.555		\$ 660,215	\$ 709,936
School Breakfast Program	10.553		<u>157,565</u>	<u>175,762</u>
Total for federal grantor agency			<u>817,780</u>	<u>885,698</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027	14205-007-PN01	754,261	203,571
		14205-007-SN01	5,399	11,500
		14205-007-DY01	-	400
		14206-007-PN01	-	<u>826,979</u>
			<u>759,660</u>	<u>1,042,450</u>
Special Education - Preschool Grants	84.173	14203-007-PY02	18,837	-
		14203-007-DY08	1,096	-
		14205-007-PY02	144,672	21,195
		45703-007-PY02	569	-
		45704-007-PN01	7,919	-
		45705-007-PN01	37,951	6,362
		45706-007-PN01	-	<u>41,501</u>
			<u>211,044</u>	<u>69,058</u>
Total for Cluster			<u>970,704</u>	<u>1,111,508</u>
Title 1 Grants to Local Educational Agencies	84.010	04-1125	207,676	-
		05-1125	480,608	184,312
		06-1125	-	<u>480,184</u>
Total for Program			<u>688,284</u>	<u>664,496</u>
Pass-Through Vigo County School Corporation				
Vocational Education - Basic Grants to States	84.048	FY 04-05	40,389	14,889
		FY 05-06	-	42,140
Pass-Through Indiana Department of Education				
Vocational Education - Basic Grants to States	84.048	03-1353-1125	233	-
		04-1353-1125	-	<u>198</u>
Total for Program			<u>40,622</u>	<u>57,227</u>
Safe and Drug Free Schools and Communities	84.186	02-231	8,560	-
		03-218	11,031	11,780
		04-348	-	<u>5,603</u>
Total for Program			<u>19,591</u>	<u>17,383</u>

The accompany notes are an integral part of the Schedule of Expenditures of Federal Awards.

CLAY COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Indiana Department of Education (continued)				
Even Start Family Literacy Program	84.213	FY 04-1016	21,367	-
		FY 05-1016	152,568	-
		FY 06-1016	-	123,880
Total for Program			<u>173,935</u>	<u>123,880</u>
Innovative Education Program Strategies	84.298	04-034	24,547	250
		05-034	-	16,666
Total for Program			<u>24,547</u>	<u>16,916</u>
Enhancing Education Through Technology	84.318	SY 2002-2003	16,808	-
		SY 2003-2004	572	13,124
		SY 2005-2006	-	2,233
Total for Program			<u>17,380</u>	<u>15,357</u>
Comprehensive School Reform Demonstration	84.332	FY 2003-04 (School #0941)	58,084	-
		FY 2003-04 (School #0949)	66,252	-
		FY 2004-05 (School #0941)	102,139	72,626
		FY 2004-05 (School #0949)	86,894	96,118
		FY 2005-06 (School #0949)	-	46,537
Total for Program			<u>313,369</u>	<u>215,281</u>
Teacher Quality Enhancement Grants	84.336	FY 04-05	1,982	1,018
		FY 05-06	-	1,267
Total for Program			<u>1,982</u>	<u>2,285</u>
Improving Teacher Quality State Grants	84.367	02-078	49,302	-
		03-051	136,438	14,834
		04-080	-	-
		05-063	-	124,581
Total for Program			<u>185,740</u>	<u>139,415</u>
Total for Federal Grantor Agency			<u>2,436,154</u>	<u>2,363,748</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana State Department of Health				
Abstinence Education Block Grant	93.235	G05011NAEGP	-	20,846
Total Federal Awards Expended			<u>\$ 3,253,934</u>	<u>\$ 3,270,292</u>

The accompany notes are an integral part of the Schedule of Expenditures of Federal Awards.

CLAY COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Clay Community School Corporation (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
National School Lunch Program	10.555	\$ 53,624	\$ 40,930

CLAY COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies Special education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CLAY COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CLAY COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 4, 2007, with Daniel J. Schroeder, Superintendent of Schools; and Michael G. Fowler, Treasurer. The officials concurred with our audit finding.